



Oklahoma Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

Jolley and Sears on the budget

As the 2016 legislative session begins, far and away the biggest issue facing lawmakers is the \$900.8 million reduction in estimated revenues for next fiscal year.

It has been *the* focus of two legislators for quite some time – Senator Clark Jolley, R-Edmond, chair of the Senate Appropriations Committee and Representative Earl Sears, R-Bartlesville, chair of the House Appropriations and Budget Committee.

Passing a budget is always the top duty of any legislature, but the anticipated reduction in available revenue this year

means all eyes will be on the work they do between now and the end of May.

Numerous structural issues relating to the budget have been discussed in past issues of the *Oklahoma Economic Report*.

Suboptimal practices, including use of nonrecurring revenue to fund recurring expenditures, have been examined at length in these pages. But positive developments, including creation of a consensus revenue estimate process and raising the cap on the rainy day fund have also been explored here.

To provide an insight into the perspectives of the two budget chairmen, the *OER* sought their answers to several questions.

OER: *What are your thoughts on the state's current revenue forecasting process? Is it adequate? Has the inclusion of two additional economists in the forecasting process helped? What could be done to make it better?*

Sen. Jolley: “While the addition of two more economists has brought more of a consensus as to the general direction, I’m still unsatisfied with our forecasting process and believe that we must do better.

“While I’m not expecting perfection, the fact that we are facing not just one, but possibly two revenue shortfalls within the current fiscal year along with what

will be greater than a one billion dollar shortfall reflects that better forecasting must be employed.

“I would favor some additional changes: 1) a two year outlook rather than a one year outlook, 2) looking at the forecasting models utilized by other states to see which ones achieve the greatest accuracy year over year and see how we can learn from their processes.”

Rep. Sears: “The process now in place for forecasting our budget is working, however, we should always seek additional ways and ideas to assist us in the forecasting of the funds that we will be able to utilize in our budget.

“Our two additional economists have been an immense addition in assisting us with the process. I feel we should continue to develop new approaches and new ideas that will assist us in the future. The more expertise we can utilize in our process just makes sense.”

OER: *What steps have you taken to improve the state's budgeting process and transparency? Are there other things you would like to see done?*

Sears: “When I was a freshman legislator I was always frustrated when I asked a question about the budget, I always received the answer ‘We are in negotiations and I can’t discuss.’

“I did not agree with that approach

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Editor

Tim Allen, Deputy Treasurer for Communications



Guest Commentary

By Senate President Pro Tempore Brian Bingman

Legislature has opportunity to prove commitment to fiscal responsibility

As session approaches, legislators must ready themselves to deal with one of the most challenging fiscal situations faced by the state in many years.

We have no choice but to address this situation by making hard decisions that will include a combination of cuts, a continuing reexamination of tax incentives and apportionments, and thoughtful consideration of major budget reforms.

The Legislature must address this situation in a fiscally responsible manner, or we may face a shortfall just as large or greater in the following year. The state has still yet to feel the full effect of oil prices that have dipped below \$30 a barrel.

This will impact tax revenues at all levels, and will have a ripple effect throughout the economy. We must anticipate and prepare for this reality today – waiting until next year to make hard choices is not an option.

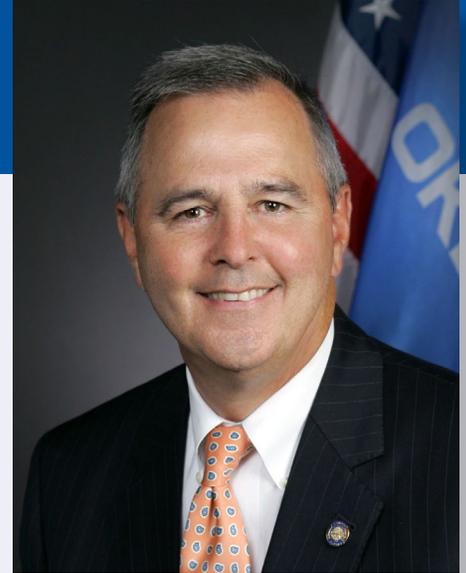
It is time to reduce the practice of utilizing one-time funding sources to pay for ongoing expenditures. Reducing this practice, which the Senate has long advocated, will leave us better prepared to weather downturns in the economy.

We should not look at what we spent last year, but instead look at what will be certified for appropriation and make that our base. We also need to address the fact that billions in off-the-top monies are dramatically limiting the amount of revenue the Legislature is able to appropriate.

“It is time to reduce the practice of utilizing one-time funding sources to pay for ongoing expenditures.”

Due to earmarks put in place over many years, just 45 percent of state revenue is deposited into the general revenue fund. This is making it increasingly difficult for the Legislature to modify funding levels in areas of need from year to year.

In addition, it is time for agencies and lawmakers to work together to stretch the effectiveness of our dollars by eliminating duplicative services, and thoroughly examining all other expenditures other than appropriated



funds. All options must be on the table.

The Legislature this year has an opportunity to prove its commitment to fiscally responsible management of the taxpayers' dollars.

As we look to the future, it is also critical that we work together to strengthen our schools and provide the best possible educational experience for our young people.

From our economy, to quality of life, and the strength of our communities, education is critical to our future success. Increasing achievement across the fields of science, math, engineering and technology will further diversify our economy, allowing us to better weather downturns in the energy industry.

The Legislature can support our educators by working to ensure that more of the funding we appropriate

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Bingman

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reaches the classroom. We should also cast a critical eye toward any mandates that prevent teachers from devoting adequate classroom time to what they do best – teach.

Finally, it is critical that we find a way to make our teacher salaries competitive with those of surrounding states. Oklahomans can be assured that having a good teacher in

the classroom with along with competitive pay is a priority for us, and we will be carefully considering every plan to achieve this goal.

Perspective

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then and I don't agree with it now. I have tried to improve the transparency process in the House by having meetings every Tuesday and Thursday morning with the A&B subcommittee chairmen to discuss the entire budget. I have also implemented small group meetings every week with House members allowing them to review the thought process as to how the budget is moving forward.

“I will continue to seek avenues and ideas on transparency regarding the development of the budget. I fully understand when negotiating with the Senate and the Governor there has to be some level of confidentiality, but that level should not be too deep, for the taxpayer needs to know how their monies are being allocated.

“Therefore, I will continue to develop avenues of transparency as to how the budget is being developed for the people of Oklahoma.”

Jolley: “One of the largest strides we undertook to improve the transparency of the budget was a reform I have pressed for two years and finally

was able to achieve in the current budget. This reform contained two parts: 1) show the budget in a more traditional spreadsheet form rather than worded paragraphs alone and 2) pass a state budget that reflects the total state revenue and expenditures from all sources by all state agencies.

“This allows for the state budget to compare more closely to the Comprehensive Annual Financial Report (CAFR) and rather than viewing the state budget as simply a \$7.1 billion budget, it more accurately reflects the true nature of state spending - a \$24 billion budget.

“For the future, I'm hoping to improve transparency by including non-appropriated state agencies in the list next fiscal year so a more complete look at state spending can easily be read by the public.”

OER: *Does the state's rainy day fund provide adequate insurance against revenue downturns? If not, what can be done to improve it?*

Jolley: “If the state were to move away

from over-reliance on nonrecurring revenue in ongoing budget expenses, I think the Rainy Day Fund could serve as a good protection against economic downturns such as the one we are experiencing because of the global oil depression.

“There are proposals to increase the Rainy Day Fund to be even larger and to start a second budget stabilization fund. However, since we haven't filled the Rainy Day Fund since we increased its capacity, I don't see these proposals as really improving the true problem – which is over-reliance on nonrecurring revenue and increased apportionments away from legislative priority setting.”

Sears: “The rainy day fund is providing adequate insurance for normal funding years, but it is not adequate when our state has a major swing and drop of the energy prices.

“Which is why this year we need to have a thorough discussion about our rainy day fund to assist us when one of our economic engines has a huge downturn.

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Opinions and positions cited in the *Oklahoma Economic Report™* are not necessarily those of Oklahoma State Treasurer Ken Miller or his staff, with the exception of the *Treasurer's Commentary*, which of course, is the viewpoint of the treasurer.



Perspective

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I am looking forward to that discussion this year.”

OER: *Many would say you face a Herculean task in the upcoming session. What message would you like to give to the people of Oklahoma about your approach to what lies ahead?*

Sears: “Developing the FY-17 budget will be a huge challenge. The good news is we will rise to this challenge and develop a balanced budget for the people of Oklahoma and at the end of the day our state will continue to function.

“I am confident that we will develop opportunities and new strategies to assist us in future budgets that will allow us to not encounter these huge swings in our budgeting in the future. Failure to do so would be irresponsible. The people of Oklahoma expect us to lead and lead we must. This is a great state and bright days lie ahead.”

Jolley: “The task ahead of us is absolutely going to require members of the Legislature to make decisions that will inevitably anger someone.

“Whether it is cutting spending in areas that people believe should see increased

appropriations rather than cuts or if it is adjusting apportionments to reflect the priorities of where the state needs to spend its dollars, the task is going to result in making someone mad and I don’t see a way for everyone to be happy.”

OER: *There has been a lot of discussion about the use of nonrecurring revenue in past budgets. What lessons can be learned, and this session notwithstanding, what can be done going forward?*

Jolley: “There are several lessons that should be learned from where we are currently.

“Among them are that the legislature should never pass tax cuts on the backs of extraordinarily high gross production collections, the legislature should heavily restrict the use of one-time funds on recurring expenses (I would exempt the Cash Flow Reserve Fund from being considered a one-time fund that should be restricted, but the others should be relied upon considerably less often), that passing further tax cuts, tax rebates and tax exemptions without first doing a true reset of our tax code is unwise and that the Legislature has fundamentally failed

in the era of term limits to remember one of the prime duties of the legislative branch is to oversee the spending within the executive branch.”

Sears: “There have been numerous pros and cons in using non-recurring revenue in past budgets. I agree with the assessment that we should not be using these funds in developing the budget. However, with the \$611 million hole last year and looking at a \$1 billion for the FY-17 hole, we have to consider all pools of money to run our state government.

“This year is a great opportunity for us to address funding issues that would allow us to stop using non-recurring revenue.

“We must reform tax credits, exemptions and apportionments off the top if we are to address our funding problem. The tax credits, exemptions and apportionments off the top are too generous and are affecting the amount of money we have left to allocate to fund state government. Tough decisions will have to be made. In my opinion, we must address these two avenues if we are to address future budgets, failure to do so will only lead us back to this same problem.”

FY-16 GRF YTD collections dip below five percent cushion

As expected, fiscal year-to-date collections in December dropped below the five-percent cushion for appropriations.

Under a constitutional amendment adopted following the oil bust of the 1980s, legislative appropriations are limited to 95 percent of the certified

estimate, allowing for a five-percent margin of error.

Allocations to the General Revenue Fund (GRF) through the first six months of the fiscal year are below the estimate by 6.2 percent, or \$172.1 million, according to the Office of Management and Enterprise Services.

A revenue failure declaration was issued in late December to allow for across-the-board cuts to appropriated state agencies.

Monthly allocations to state agencies have been reduced by 6 percent for the remainder of the fiscal year.



Miller prepares for unclaimed property battle

State Treasurer Ken Miller is preparing for battle in the coming legislative session against special interest groups who are attempting to cripple the state’s unclaimed property program.

“We expect the unclaimed property program to again come under attack this session,” he said. “Safeguarding this premier consumer protection program will be a top priority of the treasurer’s office.”

Started in 1967, Oklahoma’s program requires businesses that lose track of those to whom they owe money to remit it, along with the names and last-known addresses of its owners, to the state. The names are published in newspapers and on the internet. Money is returned to the owners and some is used by the Legislature for public purposes.

Life insurance interests, led by Kemper Insurance, headquartered in Chicago, are seeking law to let them keep billions in unclaimed life insurance proceeds.

Others are trying to dismantle the program by stripping the state of its ability to efficiently enforce unclaimed property laws through contingency fee exams of businesses believed to be in violation.

Two bills were considered last year and remain available to be heard in committee. Proponents of the measures have said they will work to get them passed again this session.

Although the respective committee chairmen ultimately kept the bills from being heard last session, every prior floor and committee vote advanced the measures. Dozens of lawyers and lobbyists have been hired to push for passage, so Miller said his office has decided to “fight fire with fire” and has retained two lobbying firms to defend the program and the people it serves.

“Safeguarding this premier consumer protection program will be a top priority of the treasurer’s office.”

“It’s unfortunate we have to resort to hiring outside representation, but these out-of-state insurance companies are trying to keep millions in unclaimed death benefits from being returned to the

rightful owners,” Miller said. “There will be those who will try to spin this for their own political gain, but this isn’t about politics – it’s about protecting the people the program services.”

Edwards Capitol Partners and Gaines Government Services were awarded contracts with the office following issuance of a request for proposals through the Central Purchasing Division of the Office of Management and Enterprise Services and will be paid a combined annual total of \$47,000 to advocate before the Legislature on behalf of the unclaimed property

program. No tax or appropriated dollars will be used to pay for the services. The contracts will be paid out of the unclaimed property fund.

“The Legislature appropriated \$60 million from the unclaimed property fund for government spending in this year’s budget,” Miller said. “We feel it is appropriate to use less than one-tenth of one percent of that amount – under \$50,000 – to protect the integrity of the program.”

However, Miller said there is a solution that would cost nothing.

“If we can get assurances that no bills will be passed and signed into law that would harm the people served by the unclaimed property program, we’ll cancel these contracts,” he said.

In the past fiscal year, Miller’s unclaimed property division returned \$38.7 million to its rightful owners.

A first-of-its-kind incentive pay program and enhanced outreach efforts helped increase returns by more than 100 percent in the past two years. Contingency fee exams of life insurance companies have collected more than \$33 million owed to Oklahomans.

Unclaimed property worth more than \$585 million is owed to some 900,000 Oklahomans. A search for names and online claims initiation is available at www.oktreasure.com.





Gross Receipts & General Revenue compared

December Gross Receipts to the Treasury totalled \$948.9 million, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received \$462.6 million, or 48.8% of the total.

The GRF received between 35.7% and 53.6% of monthly gross receipts during the past 12 months.

From December gross receipts, the GRF received:

- Personal income tax: 76.3%
- Corporate income tax: None
- Sales tax: 44.4%
- Gross production-Gas: 50.6%
- Gross production-Oil: 1.8%
- Motor vehicle tax: 27%
- Other sources: 36.2%

December GRF allocations are below the estimate by \$70.1 million or 13.2%. Fiscal year-to-date collections are less than the estimate by \$172.1 million or 6.2%.

December insurance premium taxes totalled \$50.99 million, an increase of \$1.26 million, or 2.5%, from the prior year.

Tribal gaming fees generated \$11.29 million during the month, up by \$728,770, or 6.9%, from last December.

Gross Receipts to the Treasury shrink during 2015

Gross Receipts to the Treasury during the 2015 calendar year are less than the prior calendar year, the first time that has happened since the end of the Great Recession in 2009, said State Treasurer Ken Miller.

Annual Gross Receipts to the Treasury contracted by 3 percent compared to calendar year 2014, and – at \$11.65 billion – are the lowest 12-month total since May 2014.

The calendar year reduction in collections compares to annual growth rates ranging from 2.5 percent to 9.6 percent between 2010 and 2014. During

2009, collections shrank by 15.9 percent compared to 2008.

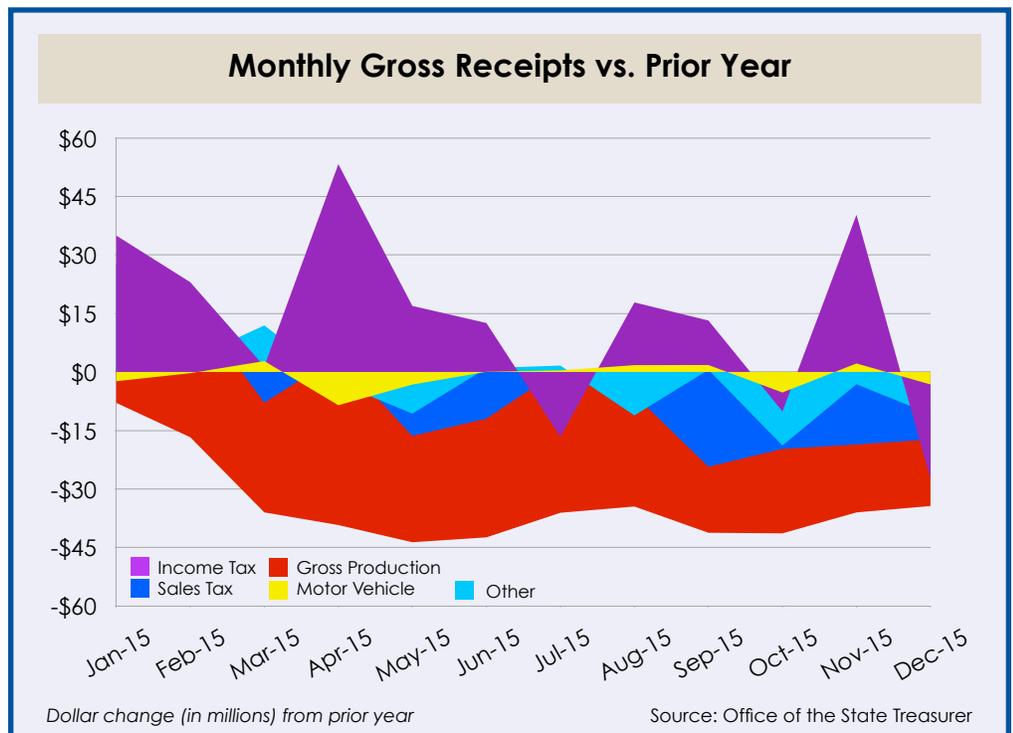
“Gross collections show all four major revenue streams were impacted by the downturn in the energy industry,” Miller said. “After slowing a little last month, the downward trend of revenue collections accelerated in December.”

Gross Receipts to the Treasury for December are \$948.9 million, down by more than

\$93 million, or almost 9 percent, from December 2014. It is the smallest December bottom line since 2010.

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“The downward trend of revenue collections accelerated in December.”





Revenue

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Monthly collections from oil and natural gas production taxes have been lower than the same month of the prior year for 12 consecutive months. December gross production collections are almost 48 percent lower than last December. Monthly receipts are based on production activity from October when

the average price of benchmark West Texas Intermediate crude oil was \$46.22 per barrel.

All major tax categories in December show total collections less than the same month of the prior year. Across-the-board contraction has been the story

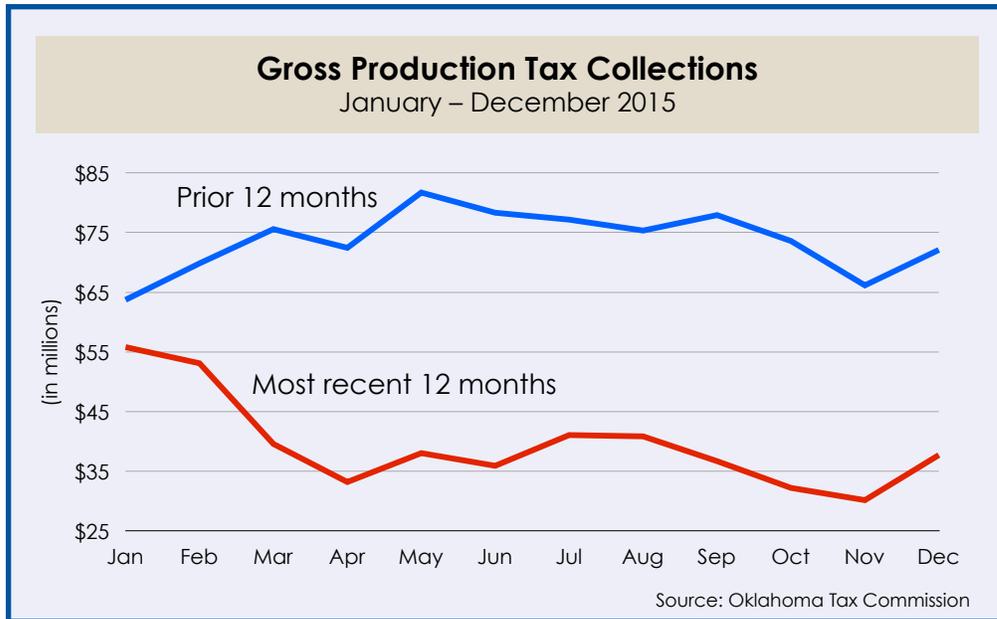
for three consecutive months, with one primary exception due to non-economic factors. In November, gross income tax collections were temporarily boosted by the tax commission's PAYRight tax amnesty program.

About Gross Receipts to the Treasury

Since March 2011, the Treasurer's Office has issued the monthly Gross Receipts to the Treasury report, which provides a timely and broad view of the state's macro economy.

It is provided in conjunction with the General Revenue Fund (GRF) allocation report from the Office of Management and Enterprise Services, which provides important information to state agencies for budgetary planning purposes.

The GRF receives just less than half of the state's gross receipts with the remainder paid in rebates and refunds, remitted to cities and counties, and placed into other state funds.



Oklahoma unemployment rate set at 4.1 percent in December

Oklahoma's seasonally-adjusted unemployment rate was set at 4.1 percent in December, down by one-tenth of one percentage point from November, according to the Oklahoma Employment Security Commission (OESC).

The number of those listed as unemployed has increased by 6,904 since December 2014, while the labor force as increased by 73,690.

The national unemployment rate was set at 5.0 percent in November.

OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
Dec '15	4.1%	1,855,928	1,779,101	76,827
Nov '15	4.2%	1,846,657	1,768,556	78,101
Oct '15	4.3%	1,839,660	1,761,419	78,241
Sept '15	4.4%	1,837,396	1,756,414	80,982
Aug '15	4.6%	1,842,978	1,759,061	83,917
July '15	4.5%	1,853,564	1,769,665	83,899
Dec '14	3.9%	1,782,238	1,712,315	69,923

* Data adjusted for seasonal factors

Source: OESC



Economic Indicators

